

VANDERBILT AREA SCHOOL
AUDITED FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2005

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INDEPENDENT AUDITOR'S REPORT

October 15, 2005

Board of Education
Vanderbilt Area School
Vanderbilt, Michigan 49795

I have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Vanderbilt Area School as of and for the year ended June 30, 2005, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Vanderbilt Area School's management. My responsibility is to express opinions on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinions.

In my opinion the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Vanderbilt Area School, as of June 30, 2005, and the respective changes in financial position, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming that Vanderbilt Area School will continue as a going concern. As discussed in Note 13 to the financial statements, the school's general fund had a net loss of \$218,787 for the year ending June 30, 2005, resulting in an ending fund balance deficit of \$51,957. These conditions raise substantial doubt about its ability to continue as a going concern. Management's plans regarding those matters also are described in Note 13. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

In accordance with Government Auditing Standards, I have also issued my report dated September 27, 2005 on my consideration of Vanderbilt Area School' internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in assessing the results of my audit.

The management's discussion and analysis and budgetary comparison information on pages 3 through 6 and pages 23 through 26 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, I did not audit the information and express no opinion on it.

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Vanderbilt Area School's basic financial statements. The introductory section, and combining non-major fund financial statements, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining non-major fund financial statements have been subjected to the auditing procedures applied by me in the audit of the basic financial statements and, in my opinion, based on my audit are fairly stated in all material respects in relation to the basic financial statements taken as a whole.



THOMAS R. ZICK CPA, P.C.
CERTIFIED PUBLIC ACCOUNTANT

VANDERBILT AREA SCHOOL

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Management Discussion and Analysis, a requirement of GASB 34, is intended to be the Vanderbilt Area School District ("the District") management's/administration's discussion and analysis of the financial results for the year ended June 30, 2005. The purpose of the discussion and analysis is to provide a look at the district's performance and current position. Readers should also review the auditor's report, the notes to the financial statements, and the financial statements to enhance their understanding of the district's financial performance.

FINANCIAL HIGHLIGHTS

The overall financial condition of the district is stable at this time. All goals related to financial activities have been met in the past year. However, the resources for the following year will be available only if current revenue and expenditure patterns improve.

The assets of the Vanderbilt Area School District exceeded liabilities at the close of the most recent fiscal year by \$456,988 (net assets).

The district's total net assets decreased by \$139,360 in the 2004/05 school year.

At the end of the current fiscal year, the fund balance deficit for the District's General Fund is \$51,957.

USING THE ANNUAL REPORT

Generally accepted accounting principles (GAAP) according to GASB 34 requires the reporting of two types of financial statements: District Wide Financial Statements and Fund Financial Statements.

This annual report consists of a series of financial statements and notes to those statements. The statements are organized so the reader can understand the District as a whole (government-wide statements), and then proceed to provide an increasingly detailed look at specific financial statements (fund financial statements). Also included are various notes to the financial statements. The audit also contains supplemental information in addition to the basic financial statements.

Reporting the District as a Whole – The Statement of Net Assets and Statement of Activities

One of the most important questions asked about the District's finances is, "Is the District better off or worse off as a result of this year's activities?" The Statement of Net Assets and the Statement of Activities report information about the District as a whole and about its activities in a manner to help address this question. These statements include all assets and liabilities of the District using the accrual basis of accounting similar to the accounting used by the private sector. All of the current year's revenues and expenses are taken into consideration regardless of when cash is received or paid.

The two statements report the District's net assets and any changes in them. The change in net assets provides the reader a tool to assist in determining whether the District's financial health is improving or deteriorating. The reader will need to consider other non-financial factors such as property tax base, political conditions on a State level, student enrollment growth, quality of local service, and facility improvements prior to arriving at any conclusion regarding the overall health of the District.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Reporting the District's Most Significant Funds

Fund Financial Statements

The fund financial statements provide detailed information about the most significant funds, not the District as a whole. The fund statements are formatted to comply with the legal requirements of the Michigan Department of Education's "Accounting Manual". The two types of funds: governmental funds and fiduciary funds use different accounting approaches as further discussed in the notes to the financial statements.

Governmental Funds

Most of the District's activities are reported in the governmental funds, which focus on how money flows into and out of those funds and the balances left at year end that are available for future periods. These funds are reported using an accounting method called modified accrual accounting, which measures cash and other financial assets that can be converted to cash. The governmental fund statements provide a detailed short-term view of the District's general operations and the basic services it provides. Governmental fund information helps you determine whether there are more or less financial resources available to spend in the near future to finance the District's programs. The relationship (or differences) between governmental funds is reconciled in the basic financial statements.

Fiduciary Funds

Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the District's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Table 1 provides a summary of the District's net assets as of June 30, 2005. As this is the first year of implementation of GASB 34 statements, prior year comparisons are not available.

TABLE 1 Governmental Activities

| <u>Assets</u> | <u>06/30/05</u> | <u>06/30/04</u> |
|--|---------------------|---------------------|
| Current Assets | \$ 956,427 | \$ 725,996 |
| Noncurrent Assets | 3,291,525 | 3,332,707 |
| Total Assets | <u>\$ 4,247,952</u> | <u>\$ 4,058,703</u> |
| <u>Liabilities</u> | | |
| Current Liabilities | \$ 874,046 | \$ 441,095 |
| Noncurrent Liabilities | 2,916,918 | 3,057,148 |
| Total Liabilities | <u>\$ 3,790,964</u> | <u>\$ 3,498,243</u> |
| <u>Net Assets</u> | | |
| Invested in Capital Assets - Net of Debt | \$ 302,525 | \$ 192,707 |
| Restricted | 289,698 | 276,005 |
| Unrestricted | (135,235) | 91,748 |
| Total Net Assets | <u>\$ 456,988</u> | <u>\$ 560,460</u> |

The District reports positive balances in each category of net assets except for unrestricted net assets.

The results of this year's operations for the District as a whole are represented in a statement of activities (Table 2), which shows the changes in net assets for the fiscal year 2005.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

TABLE 2 Governmental Activities

| | <u>06/30/05</u> | <u>06/30/04</u> |
|------------------------------------|------------------------|------------------------|
| Program Revenues | | |
| Charges for services | \$ 30,143 | \$ 41,078 |
| Operating grants and contributions | 397,549 | 436,020 |
| General Revenues | | |
| Property taxes | 1,155,293 | 1,069,763 |
| State School Aid | 690,751 | 833,660 |
| Other | 55,662 | 28,135 |
| Total Revenues | <u>\$ 2,329,398</u> | <u>\$ 2,408,656</u> |
| | <u>06/30/05</u> | <u>06/30/04</u> |
| Functions/Program Expenses | | |
| Instruction | \$ 1,256,795 | \$ 1,478,703 |
| Supporting services | 934,972 | 956,129 |
| Athletics & food services | 116,320 | 126,947 |
| Transfers and other | 160,671 | 157,872 |
| Total Expenses | <u>2,468,758</u> | <u>2,719,651</u> |
| Change in Net Assets | <u>\$ (139,360)</u> | <u>\$ (310,995)</u> |

As reported in the statement of activities the cost of all governmental activities for the year was \$2,468,758 while \$1,155,293 in revenue was generated directly from local taxpayers, another \$30,143 was generated through "charges for actual services" to local districts, or individuals that benefited directly from our services. State, federal, other regional grants and programs brought \$397,549 to the district. The district received \$690,751 in state education funding and \$55,662 in other miscellaneous sources, inclusive of investment earnings. Net assets for the year ending June 30, 2005 decreased by approximately \$139,360.

MAJOR GOVERNMENTAL FUNDS BUDGETING AND OPERATING HIGHLIGHTS

The District's budgets are not prepared in accordance with Michigan Law, because the budgets for the year ending 6/30/05 and 6/30/06 have been adopted showing fund balance deficits, which violates state law. The most significant budgeted fund is the General Fund. During the fiscal year of 2004/05 the District amended the budgets of these major governmental funds twice. This has been the normal business practice of the district. Due to the timing of grant awards and pupil counts, the general fund budget will change significantly from the beginning to the end of the year. The two major funds are the General Fund and the 1997 Debt Fund. Only the General Fund is required to adopt a budget under Michigan law.

General Fund

The General Fund revenues were lower than expenditures in the past year of operations by \$218,787. In anticipation of the state education budget crises, the District also made cuts in all operational areas.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The District's assets have accumulated \$1,795,228 of depreciation. Our capitalized assets include our buildings, land, equipment and transportation fleet. This year saw a \$77,070 decrease in Net Capital Assets. A categorized listing of the assets is below.

TABLE 3 Vanderbilt Area School District Capital Assets

| | Balance | | | |
|---------------------------------------|---------------------|--------------------|-------------|---------------------|
| | June 30, 2004 | Additions | Disposals | June 30, 2005 |
| Capital assets not being depreciated: | | | | |
| Land | \$ 11,500 | \$ - | \$ - | \$ 11,500 |
| Capital assets being depreciated: | | | | |
| Building and land improvements | 4,302,947 | - | - | 4,302,947 |
| Buses and other vehicles | 190,126 | - | - | 190,126 |
| Furniture and equipment | 542,432 | 39,748 | - | 582,180 |
| Subtotal | 5,035,505 | 39,748 | - | 5,075,253 |
| Accumulated depreciation: | | | | |
| Building and land improvements | 1,276,686 | 60,010 | - | 1,336,696 |
| Buses and other vehicles | 78,154 | 20,595 | - | 98,749 |
| Furniture and equipment | 323,570 | 36,213 | - | 359,783 |
| Subtotal | 1,678,410 | 116,818 | - | 1,795,228 |
| Net capital assets being depreciated | 3,357,095 | (77,070) | - | 3,280,025 |
| Net governmental capital assets | <u>\$ 3,368,595</u> | <u>\$ (77,070)</u> | <u>\$ -</u> | <u>\$ 3,291,525</u> |

Long Term Debt

The District owes \$3,014,211 on loans which will be paid over the next twelve years. This is a decrease in outstanding debt of \$151,000 or 4.8%. More detail is shown on pages 19-21 in the Notes to the Financial Statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The economy of the State of Michigan has dramatically slowed and forecasts project shortages in both the State's General Fund and the School Aid Fund for the upcoming year. The exact implications the shortages will have on the District are unknown. Our budgets were prepared with these factors in mind. We also are dependent on student counts for our foundation allowance. Student counts vary from year to year and have been in steady decline. The district has enjoyed the additional revenue provided through legislation for sparsely populated, declining enrollment school districts. This additional revenue is subject to change by the State Legislature at any time.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the Vanderbilt Area School District's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to:

Jeffrey D. Liedel, Superintendent
Vanderbilt Area School District
947 Donovan Street
Vanderbilt, MI 49795

VANDERBILT AREA SCHOOL
STATEMENT OF NET ASSETS
JUNE 30, 2005

| | Governmental Activities |
|---|------------------------------|
| ASSETS | |
| Cash demand and time deposits | \$ 547,776 |
| Receivables | |
| Other governments | 393,119 |
| Taxes | 7,829 |
| Prepaid insurance | 5,912 |
| Inventory | 1,791 |
| Capital assets | |
| Land | 11,500 |
| Other capital assets, net of depreciation | <u>3,280,025</u> |
| TOTAL ASSETS | <u>4,247,952</u> |
| LIABILITIES | |
| Account payable | 16,664 |
| Accrued liabilities | 162,288 |
| Note payable | 500,000 |
| Deferred revenue | 54,184 |
| Noncurrent liabilities: | |
| Due within one year | 140,910 |
| Due in more than one year | <u>2,916,918</u> |
| TOTAL LIABILITIES | <u>3,790,964</u> |
| NET ASSETS | |
| Invested in capital assets, net of related debt | 302,525 |
| Restricted for: | |
| Debt Service | 268,222 |
| Capital Projects | 21,476 |
| Unrestricted | <u>(135,235)</u> |
| TOTAL NET ASSETS | <u><u>\$ 456,988</u></u> |

See Notes to Financial Statements

VANDERBILT AREA SCHOOL
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2005

| Functions / Programs | Expenses | Program Revenues | | Net (Expense) Revenue |
|--|--------------------|-------------------------|--|--------------------------|
| | | Charges for Services | Operating Grants and Contributions | |
| Primary Government | | | | |
| Governmental Activities | | | | |
| Instruction | \$ 1,256,795 | \$ - | \$ 237,208 | \$ (1,019,587) |
| Support Services | 934,972 | - | 110,321 | (824,651) |
| Athletics | 41,695 | 12,694 | - | (29,001) |
| Food Service | 74,625 | 17,449 | 50,020 | (7,156) |
| Interest on Debt | 160,671 | - | - | (160,671) |
| Total Governmental Activities | <u>\$2,468,758</u> | <u>\$30,143</u> | <u>\$397,549</u> | <u>(2,041,066)</u> |
| General revenues: | | | | |
| Taxes: | | | | |
| Property taxes levied for general purposes | | | | 838,900 |
| Property taxes, levied for debt services | | | | 264,071 |
| Property taxes, levied for special education through ESD | | | | 52,322 |
| State aid not restricted to specific purposes | | | | 690,751 |
| Interest and investment earnings | | | | 6,043 |
| Other | | | | <u>49,619</u> |
| Total general revenues, contributions and transfers | | | | <u>1,901,706</u> |
| Change in net assets | | | | (139,360) |
| Net assets, beginning of year (as restated) | | | | <u>596,348</u> |
| Net assets, end of year | | | | <u>\$ 456,988</u> |

See Notes to Financial Statements

VANDERBILT AREA SCHOOL
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2005

| | GENERAL FUND | 1997 DEBT FUND | OTHER FUNDS | TOTAL |
|--|-------------------|-------------------|------------------|-------------------|
| ASSETS | | | | |
| Cash | \$ 262,920 | \$ 262,781 | \$ 22,075 | \$ 547,776 |
| Receivables | | | | |
| Taxes | 7,345 | 484 | - | 7,829 |
| Prepaid Insurance | 5,912 | - | - | 5,912 |
| Inventory | - | - | 1,791 | 1,791 |
| Due From Other Funds | 350 | 4,957 | 8,467 | 13,774 |
| Due From Other Governmental Units | 393,119 | - | - | 393,119 |
| | <u>393,119</u> | <u>-</u> | <u>-</u> | <u>393,119</u> |
| TOTAL ASSETS | <u>\$ 669,646</u> | <u>\$ 268,222</u> | <u>\$ 32,333</u> | <u>\$ 970,201</u> |
| LIABILITIES AND FUND BALANCES | | | | |
| LIABILITIES | | | | |
| Accounts Payable | \$ 16,664 | \$ - | - | \$ 16,664 |
| Accrued Liabilities | 137,331 | - | - | 137,331 |
| Note Payable | 500,000 | - | - | 500,000 |
| Due to Other Funds | 13,424 | - | 350 | 13,774 |
| Deferred Revenue | 54,184 | - | - | 54,184 |
| | <u>721,603</u> | <u>-</u> | <u>350</u> | <u>721,953</u> |
| TOTAL LIABILITIES | <u>721,603</u> | <u>-</u> | <u>350</u> | <u>721,953</u> |
| FUND BALANCES | | | | |
| Reserved | - | 268,222 | 21,476 | 289,698 |
| Unreserved | (51,957) | - | 10,507 | (41,450) |
| | <u>(51,957)</u> | <u>268,222</u> | <u>31,983</u> | <u>248,248</u> |
| TOTAL FUND BALANCES | <u>(51,957)</u> | <u>268,222</u> | <u>31,983</u> | <u>248,248</u> |
| TOTAL LIABILITIES AND FUND BALANCES | <u>\$ 669,646</u> | <u>\$ 268,222</u> | <u>\$ 32,333</u> | <u>\$ 970,201</u> |

See Notes to Financial Statements

VANDERBILT AREA SCHOOL
Reconciliation of Fund Balances on the Balance Sheet
for Governmental Funds to Net Assets of
Governmental Activities on the Statement of Net Assets
JUNE 30, 2005

| | |
|--|---------|
| Fund Balances - Total Governmental Funds | 248,248 |
|--|---------|

Amounts reported for *governmental activities* in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.

| | |
|--------------------------|-------------|
| Capital Assets - at Cost | 5,086,753 |
| Accumulated Depreciation | (1,795,228) |

Certain liabilities such as bonds and notes payable are not due and payable in the current period and therefore are not reported in the governmental funds

| | |
|------------------------------|-------------|
| Bonds payable | (2,985,211) |
| Installment loans payable | (29,000) |
| Compensated absences payable | (43,617) |

| | |
|---|-----------------|
| Accrued interest payable is not included as a liability in governmental funds | <u>(24,957)</u> |
|---|-----------------|

| | |
|---------------------------------------|-----------------------|
| Net Assets of Governmental Activities | <u><u>456,988</u></u> |
|---------------------------------------|-----------------------|

See Notes to Financial Statements

VANDERBILT AREA SCHOOL
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2005

| | GENERAL FUND | 1997 DEBT FUND | OTHER FUNDS | TOTAL |
|--|--------------------|-------------------|------------------|-------------------|
| REVENUES | | | | |
| Local Sources | \$ 891,222 | \$ 264,071 | \$ 30,143 | \$ 1,185,436 |
| State Sources | 736,558 | - | 8,433 | 744,991 |
| Federal Sources | 301,722 | - | 41,587 | 343,309 |
| Interest Income | 2,288 | 3,604 | 151 | 6,043 |
| Other Revenue | 49,619 | - | - | 49,619 |
| TOTAL REVENUES | 1,981,409 | 267,675 | 80,314 | 2,329,398 |
| EXPENDITURES | | | | |
| Current | | | | |
| Instruction | 1,173,270 | - | - | 1,173,270 |
| Supporting Services | 900,999 | - | - | 900,999 |
| Athletic Events | - | - | 41,695 | 41,695 |
| Food Services | - | - | 74,625 | 74,625 |
| Capital Outlay | 35,231 | - | 4,517 | 39,748 |
| Debt Service: | | | | |
| Principal | 56,000 | 95,000 | - | 151,000 |
| Interest and Other Charges | 6,857 | 154,605 | - | 161,462 |
| TOTAL EXPENDITURES | 2,172,357 | 249,605 | 120,837 | 2,542,799 |
| REVENUES OVER (UNDER) EXPENDITURES | (190,948) | 18,070 | (40,523) | (213,401) |
| OTHER FINANCING SOURCES (USES) | | | | |
| Transfers In | - | - | 27,839 | 27,839 |
| Transfers (Out) | (27,839) | - | - | (27,839) |
| TOTAL OTHER FINANCING SOURCES (USES) | (27,839) | - | 27,839 | - |
| REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES | (218,787) | 18,070 | (12,684) | (213,401) |
| FUND BALANCES, BEGINNING OF YEAR | 166,830 | 250,152 | 44,667 | 461,649 |
| FUND BALANCES, END OF YEAR | <u>\$ (51,957)</u> | <u>\$ 268,222</u> | <u>\$ 31,983</u> | <u>\$ 248,248</u> |

See Notes to Financial Statements

VANDERBILT AREA SCHOOL
Reconciliation of the Statement of Revenues, Expenditures
and Changes in Fund Balances of Governmental Funds
to the Statement of Activities
FOR THE YEAR ENDED JUNE 30, 2005

| | |
|--|--------------|
| Net Change in Fund Balances - Total Governmental Funds | \$ (213,401) |
|--|--------------|

Amounts reported for *governmental activities* in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

| | |
|-------------------------------|-----------|
| Add - Capital Outlay | 39,748 |
| Deduct - Depreciation Expense | (116,818) |

Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.

| | |
|---|---------|
| Add - Principal Payments on Long-term Liabilities | 151,000 |
|---|---------|

Accrued interest, compensated absences, and retirement incentive payable do not require the use of current financial resources and therefore are not reported as expenditures in the fund statements

| | |
|---|-------|
| Add - Decrease in accrued interest payable on bonds | 791 |
| Deduct - Increase in compensated absences | (680) |

| | |
|---|--|
| Change in Net Assets of Governmental Activities | <div style="border-top: 1px solid black; border-bottom: 3px double black;">(\$139,360)</div> |
|---|--|

See Notes to Financial Statements

VANDERBILT AREA SCHOOL
STATEMENT OF FIDUCIARY FUND NET ASSETS
AGENCY FUNDS
JUNE 30, 2005

ASSETS

| | |
|------|------------------|
| Cash | <u>\$ 21,307</u> |
|------|------------------|

| | |
|--------------|-------------------------|
| TOTAL ASSETS | <u><u>\$ 21,307</u></u> |
|--------------|-------------------------|

LIABILITIES

| | |
|-----------------------|------------------|
| Due to Student Groups | <u>\$ 21,307</u> |
|-----------------------|------------------|

| | |
|-------------------|-------------------------|
| TOTAL LIABILITIES | <u><u>\$ 21,307</u></u> |
|-------------------|-------------------------|

See Notes to Financial Statements

VANDERBILT AREA SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Vanderbilt Area School conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the School District.

REPORTING ENTITY

The school district is governed by an elected seven-member Board of Education. The accompanying financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operational financial relationships that determine which of the governmental organizations are a part of the School District's reporting entity, and which organizations are legally separate, component units of the School District. Based on the application of the criteria, the School District does not contain any component units.

DISTRICT-WIDE AND FUND FINANCIAL STATEMENTS

The district-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All of the School District's district-wide activities are considered governmental activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenue includes (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes, intergovernmental payments, and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the district-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION

District-Wide Financial Statements - The district-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants, categorical aid, and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

As a general rule, the effect of interfund activity has been eliminated from the district-wide financial statements.

Amounts reported as program revenue include (1) charges to customers or applicants for goods, services, or privileges provided; and (2) operating grants and contributions. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes and unrestricted state aid.

VANDERBILT AREA SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fund Financial Statements – Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, unrestricted state aid, intergovernmental grants, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the District.

Fiduciary fund statements are also reported using the economic resources measurement focus and the accrual basis of accounting. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

The School District reports the following major governmental funds:

General Fund - The General Fund is the School District's primary operating fund. It accounts for all financial resources of the School District, except those required to be accounted for in another fund.

1997 Debt Retirement Fund – The 1997 Debt Retirement Fund is used to record tax, interest, and other revenue for the payment of general long-term debt principal, interest, and related costs.

Additionally, the District reports the following governmental types:

Special Revenue Funds - Special Revenue Funds are governmental funds used to account for the proceeds of specific revenue sources that are restricted to expenditures for specified purposes. The District's Special Revenue Funds include the Food Service and Athletics Funds. Any operating deficit generated by these activities is the responsibility of the General Fund.

Capital Project Fund – Capital Project funds are governmental funds used to account for financial resources to be used for the acquisition or construction of major capital facilities.

Fiduciary Funds – The School District maintains an Agency Fund to record the transactions of student groups for school and school-related purposes. The funds are segregated and held in trust for the students.

ASSETS, LIABILITIES, AND NET ASSETS OR EQUITY

Cash and Investments – Cash and investments include cash on hand, demand deposits, and savings accounts.

Receivables and Payables – In general, outstanding balances between funds are reported as "due to/from other funds."

VANDERBILT AREA SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

All trade and property tax receivables are shown net of an allowance for uncollectible amounts. The School District considers all receivables to be fully collectible; accordingly, no allowance for uncollectible amounts is recorded. Property taxes are assessed as of December 31 and the related property taxes are levied and become a lien on December 1 of the following year. These taxes are due on February 14 with the final collection date of February 28 before they are added to the county delinquent tax rolls. The County operates a delinquent tax revolving fund and normally pays to the District all current taxes annually prior to June 30.

Restricted Assets – The fund balance in the debt service fund is shown as a restricted fund balance. This balance can only be used to service the debt.

Capital Assets – Capital assets, which include land, buildings, equipment, and vehicles, are reported in the applicable governmental column in the district-wide financial statements. Capital assets are defined by the School District as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Costs of normal repair and maintenance that do not add to the value or materially extend asset life are not capitalized. The School District does not have infrastructure-type assets.

Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

| | |
|--|-------------|
| Buildings, building additions, and land improvements | 10-50 years |
| Buses and other vehicles | 7-15 years |
| Furniture and other equipment | 2-15 years |

Long-Term Obligations – In the district-wide financial statements long-term debt and other long-term obligations are reported as liabilities in the statement of net assets.

Fund Equity – In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Accounting Change – Effective July 1, 2003, the School district implemented the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* (GASB No. 34) along with all related statements and interpretations.

NOTE 2 – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgetary Information – Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America and state law for the general and special revenue funds. All annual appropriations lapse at the fiscal year end.

The budget document presents information by fund and function. The legal level of budgetary control adopted by the governing body (i.e., the level at which expenditures may not legally exceed appropriations) is the function level. State law requires the School District to have its budget in place by July 1. Expenditures in excess of amounts budgeted are a violation of Michigan law. State law permits districts to amend their budgets during the year.

VANDERBILT AREA SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

NOTE 2 – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (CONTINUED)

Excess Expenditures Over Appropriations in Budgeted Funds - The School District is required under Public Act 621 of 1978 to adopt (pass) a budget (General Appropriations Act) for the General Fund and Individual Special Revenue Funds. The District complied in all areas except the following expenditure areas that exceeded budgeted amounts:

| <u>Fund/Function</u> | <u>Total Budget</u> | <u>Actual Expenditures</u> | <u>Budget Variance</u> |
|-----------------------------|-------------------------|--------------------------------|----------------------------|
| General Fund | | | |
| Title I | \$ 111,622 | \$ 123,205 | \$ (11,583) |
| Other | \$ 5,541 | \$ 6,967 | \$ (1,426) |
| Comprehensive School Reform | \$ 102,886 | \$ 104,366 | \$ (1,480) |
| Computers & Technology | \$ 66,902 | \$ 69,980 | \$ (3,078) |
| Board of Education | \$ 27,497 | \$ 28,946 | \$ (1,443) |
| Office of Principal | \$ 151,338 | \$ 151,749 | \$ (411) |
| Debt Principal | \$ -0- | \$ 56,000 | \$ (56,000) |
| Special Revenue: | | | |
| Athletic | \$ 41,600 | \$ 41,695 | \$ (95) |
| Food Service | \$ 71,745 | \$ 74,625 | \$ (2,880) |

The district adopted an original budget for the year 2004/05 which was in violation of state statutes, because it showed an ending fund balance deficit. The final amended budget also violated state statutes for the same reason.

NOTE 3 - CASH AND INVESTMENTS

The captions on the combined balance sheet related to cash and investments are as follows:

| | <u>Imprest Cash</u> | <u>Cash/checking and Savings</u> | <u>Total</u> |
|-----------------------|---------------------|--------------------------------------|-------------------|
| Government Activities | \$ 200 | \$ 547,577 | \$ 547,777 |
| Agency Funds | - | 21,307 | 21,307 |
| | <u>\$ 200</u> | <u>\$ 568,884</u> | <u>\$ 569,084</u> |

Deposits - At year-end, the carrying amount of the District's deposits was \$568,884 and the bank balance was \$614,782 and was classified as to risk as follows.

| | |
|------------------------------|-------------------|
| Insured | \$ 245,413 |
| Uninsured – Uncollateralized | <u>323,471</u> |
| | <u>\$ 568,884</u> |

Investments – Act 217, PA 1982, authorized the School District to deposit and invest in the following:

- a. Bonds, bills, and other direct obligations of the United States or its agencies.
- b. Certificates of deposit and other savings instruments issued by a federally insured bank, savings and loan or credit union maintaining an office in Michigan.
- c. Commercial paper rated prime at the time of purchase and maturing not more than 270 days after the date of purchase.

VANDERBILT AREA SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

NOTE 3 - CASH AND INVESTMENTS (CONTINUED)

- d. Mutual Funds comprised of investments which are legal for direct investment by local units of government in Michigan.
- e. U.S. Government or federal agency obligation repurchase agreements.

The Board of Education is authorized to designate depositories for District funds, and the funds are invested in accordance with State of Michigan statutory authority

NOTE 4 – RECEIVABLES

Receivables as of year-end for the School District's individual major funds and the other nonmajor governmental funds are as follows:

| | <u>General</u> |
|-------------------|-------------------|
| Receivables | |
| Taxes | \$ 7,829 |
| State of Michigan | <u>393,119</u> |
| Net Receivables | <u>\$ 400,948</u> |

Governmental funds report deferred revenue in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, deferred revenue consists of grant and categorical aid payments received prior to meeting all eligibility requirements and other items totaling \$54,184.

NOTE 5 – INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

The composition of interfund balances is as follows:

| <u>Transfers In/Out</u> | <u>Transfer In</u> | <u>Transfer Out</u> | <u>Total</u> |
|--------------------------|--------------------|---------------------|---------------|
| General Fund | \$ -0- | \$ (27,839) | \$ (27,839) |
| Special Revenue: | | | |
| Athletic Fund | <u>27,839</u> | <u>-0-</u> | <u>27,839</u> |
| Total | <u>\$ 27,839</u> | <u>\$ (27,839)</u> | <u>\$ -0-</u> |
| <u>Due To / Due From</u> | <u>Due To</u> | <u>Due From</u> | |
| General Fund | \$ 13,424 | \$ 350 | |
| Special Revenue: | | | |
| Athletic | 350 | | |
| Food Service | -0- | 6,028 | |
| Capital Projects | -0- | 2,439 | |
| 1997 Debt Fund | <u>-0-</u> | <u>4,957</u> | |
| Total | <u>\$ 13,774</u> | <u>\$ 13,774</u> | |

VANDERBILT AREA SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

NOTE 6 – CAPITAL ASSETS

Capital asset activity of the School District's governmental activities was as follows:

| | Balance June 30, 2004 | Additions | Disposals | June 30, 2005 |
|---------------------------------------|--------------------------|--------------------|-------------|---------------------|
| Capital assets not being depreciated: | | | | |
| Land | \$ 11,500 | \$ - | \$ - | \$ 11,500 |
| Capital assets being depreciated: | | | | |
| Building and land improvements | 4,302,947 | - | - | 4,302,947 |
| Buses and other vehicles | 190,126 | - | - | 190,126 |
| Furniture and equipment | 542,432 | 39,748 | - | 582,180 |
| Subtotal | 5,035,505 | 39,748 | - | 5,075,253 |
| Accumulated depreciation: | | | | |
| Building and land improvements | 1,276,686 | 60,010 | - | 1,336,696 |
| Buses and other vehicles | 78,154 | 20,595 | - | 98,749 |
| Furniture and equipment | 323,570 | 36,213 | - | 359,783 |
| Subtotal | 1,678,410 | 116,818 | - | 1,795,228 |
| Net capital assets being depreciated | 3,357,095 | (77,070) | - | 3,280,025 |
| Net governmental capital assets | <u>\$ 3,368,595</u> | <u>\$ (77,070)</u> | <u>\$ -</u> | <u>\$ 3,291,525</u> |

Depreciation expense was charged to activities of the School District as follows:

Governmental activities:

| | |
|------------------|-------------------|
| Instruction | \$ 83,852 |
| Support services | 32,966 |
| Total | <u>\$ 116,818</u> |

NOTE 7 - LONG-TERM DEBT

The following is a summary of debt transactions of the School District for the Year ended June 30, 2005:

| | Bus Contract | Durant Debt | 1997 Bond | Compensated Absences and Retirement Incentive | Total |
|--------------------------|------------------|------------------|--------------------|--|---------------------|
| Payable at July 1, 2003 | \$ 85,000 | \$ 25,211 | \$3,055,000 | \$ 42,937 | \$ 3,208,148 |
| Reductions/Additions | (56,000) | -0- | (95,000) | 680 | (150,320) |
| Payable at June 30, 2005 | <u>\$ 29,000</u> | <u>\$ 25,211</u> | <u>\$2,960,000</u> | <u>\$ 43,617</u> | <u>\$ 3,057,828</u> |

| Description | Interest Rate | Maturity Year | Outstanding 6/30/05 | | Total |
|--------------|---------------|---------------|---------------------|---------------------|---------------------|
| | | | Principal | Interest | |
| Bus Contract | 3.00% | 2006 | \$ 29,000 | \$ 435 | \$ 29,435 |
| Durant Debt | 4.761353% | 2013 | 25,211 | 7,263 | 32,474 |
| 1997 Bond | 4.35% | 2008 | 2,960,000 | 1,469,645 | 4,429,645 |
| Total | | | <u>\$3,014,211</u> | <u>\$ 1,477,343</u> | <u>\$ 4,491,554</u> |

VANDERBILT AREA SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

NOTE 7 - LONG-TERM DEBT (CONTINUED)

BUS CONTRACT – A third party installment purchase agreement for the purchase of two buses was entered into during the year ended June 30, 2003. Independent Bank of Gaylord purchased the installment agreement from the bus vendor. The interest rate on the loan is 3% per annum with annual principal payments due in the amounts shown below plus interest. The note matures on December 31, 2005.

| | <u>2005/06</u> | <u>Total</u> |
|-----------|------------------|------------------|
| Principal | \$ 29,000 | \$ 29,000 |
| Interest | <u>435</u> | <u>435</u> |
| Total | <u>\$ 29,435</u> | <u>\$ 29,435</u> |

DURANT DEBT - During a previous fiscal year the district received proceeds in the amount of \$39,462 as partial resolution of litigation. The District will receive State Aid equal to the debt service cost annually. If the legislature fails to appropriate the funds, the District is under no obligation to make the payment.

Original issue - \$39,362 – School Improvement Bond, Series 1998 due in annual installments as scheduled below. The annual interest rate is 4.761343%. The final payment is due May 15, 2013.

During the 2002/03 school year the Michigan Municipal bond Authority determined that certain payments of principal and interest (those payments due May of 2003, 2004, and 2005) shall be deferred until a later date which increases the amounts due in the later years of the contract but does not increase the total number of years outstanding.

| | <u>Principal</u> | <u>Interest</u> | <u>Total</u> | | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|------|------------------|-----------------|--------------|-------|------------------|-----------------|------------------|
| 2006 | 1,910 | 861 | 2,771 | 2010 | 2,301 | 470 | 2,771 |
| 2007 | 2,001 | 770 | 2,771 | 2011 | 2,410 | 361 | 2,771 |
| 2008 | 2,096 | 675 | 2,771 | 2012 | 2,525 | 246 | 2,771 |
| 2009 | 2,196 | 575 | 2,771 | 2013 | 9,772 | 3,305 | 13,077 |
| | | | | Total | <u>\$ 25,211</u> | <u>\$ 7,263</u> | <u>\$ 32,474</u> |

1997 GENERAL OBLIGATION BONDS - Original issue - \$3,400,000 – 1997 Building and Site Bonds due in annual installments as scheduled below. Interest rates vary from 4.75% to 5.125% throughout the life of the bond issue. The final payment is due May 1, 2022.

| | <u>May 1 Principal</u> | <u>Interest Rate</u> | <u>May 1 Interest</u> | <u>Nov 1 Interest</u> | <u>Total</u> |
|---------|----------------------------|--------------------------|---------------------------|---------------------------|---------------------|
| 2005 | | 5.000 | | 74,870 | 74,870 |
| 2006 | 110,000 | 5.000 | 74,870 | 72,120 | 256,990 |
| 2007 | 125,000 | 5.000 | 72,120 | 68,995 | 266,115 |
| 2008 | 135,000 | 5.000 | 68,995 | 65,620 | 269,615 |
| 2009 | 145,000 | 5.000 | 65,620 | 61,995 | 272,615 |
| 2009-14 | 855,000 | 5.000 | 269,475 | 248,100 | 1,372,575 |
| 2014-19 | 990,000 | 5.100 | 152,992 | 127,747 | 1,270,739 |
| 2019-22 | 600,000 | 5.000 | 30,750 | 15,376 | 646,125 |
| | <u>\$ 2,960,000</u> | | <u>\$ 734,822</u> | <u>\$ 734,823</u> | <u>\$ 4,429,645</u> |

Five Year Annual Debt Service for all debt, other than retirement incentive and compensated absences, combined is as follows:

VANDERBILT AREA SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

NOTE 7 - LONG-TERM DEBT (CONTINUED)

Annual Debt Service Requirements:

| | Governmental Activities | | |
|---------|-------------------------|---------------------|---------------------|
| | Principal | Interest | Total |
| 2005/06 | 140,910 | 151,036 | 291,946 |
| 2006/07 | 127,001 | 145,010 | 272,011 |
| 2007/08 | 137,096 | 138,665 | 275,761 |
| 2008/09 | 147,196 | 131,815 | 279,011 |
| 2009/14 | 872,008 | 583,952 | 1,455,960 |
| 2014/19 | 990,000 | 280,739 | 1,270,739 |
| 2019/22 | 600,000 | 46,126 | 646,126 |
| Total | <u>\$ 3,014,211</u> | <u>\$ 1,477,343</u> | <u>\$ 4,491,554</u> |

\$262,781 is available in the Debt Retirement Funds to service the general obligation bonds.

NOTE 8 - DEFINED BENEFIT PENSION PLAN

All District full-time employees participate in the Michigan Public School Employees' Retirement System, ("System"), a cost-sharing multiple-employer public employee retirement system. The Michigan Public School Employees' Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the system at 7150 Harris Drive, P.O. Box 30673, Lansing, MI 48909-8103.

All full-time employees of the District are required by law to participate in the System. All benefits vest after 10 years of service. Basic plan members may retire at age 55 with 30 years of credited service, or at age 60 with 10 or more years of credited service. A Member Investment Plan (MIP) member may retire at any age with 30 years of credited service or at age 60 with 5 years of service. Both basic and MIP plan members may retire at age 55 with 15 years of service and receive reduced early retirement benefits. Benefits are paid monthly over the member's or survivor's lifetime and are equal to 1.5% of the member's final average compensation times the member's years of credited service. The final average compensation period for basic members is 60 consecutive months and for MIP members is 36 consecutive months. The system also provides health, dental and vision insurance coverage for retirees.

Member Investment Plan (MIP) members enrolled in MIP prior to January 1, 1990 contribute at a permanently fixed rate of 3.9% of gross wages. Members first hired January 1, 1990 or later contribute at various rates depending on school fiscal year compensation. Basic plan members make no contributions. The District was required to contribute 14.87% of participants salary to the System for the fiscal year ended 6/30/05, and the State of Michigan is responsible for any further contributions necessary to keep the fund actuarially sound. The School District's contributions to the MPSERS plan for the years ended June 30, 2005, 2004, and 2003 were \$172,174, \$170,202, and \$158,120.

Post-Employment Benefits

Under the MPSERS Act, all retirees have the option of continuing health, dental and vision coverage. In prior years the State pre-funded these benefits using the entry age actuarial cost method. Retirees having this coverage contribute an amount equivalent to the monthly cost for Part B Medicare and 10% of the monthly premium amount for the health, dental and vision coverage. These contributions are deducted from the retirees' monthly pension. No additional contributions are required from the District on these post-employment benefits. The 14.87% noted above includes these costs.

VANDERBILT AREA SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

NOTE 9 - RISK MANAGEMENT

The School District participates in the MASB-SEG Property and Casualty Pool and Workers Compensation Pool.

The MASB-SEG Property/Casualty Pool, Inc. was created on May 23, 1985 and organized under Public Act 138 of 1982 as amended, as a governmental group property and casualty self-insurance pool. Approximately 375 educational institutions within the State of Michigan participate in the Pool.

The Pool limits the maximum net loss that may arise from large risks or in concentrated areas of exposure by reinsuring certain levels of risks with other insurers or reinsurers. The Pool purchases excess liability coverage from one or more insurers or reinsurers to provide 100 percent coverage at each insured level.

NOTE 10 – PRIOR PERIOD ADJUSTMENT

In the government wide financial statements the beginning balance of net capital assets was increased by \$35,888. This has the effect of increasing net assets by the same amount. The adjustment was as follows:

| | |
|--|------------------|
| Adjustment to beginning capital asset cost | \$ (1,081) |
| Adjustment to beginning accumulated depreciation | <u>36,969</u> |
| | <u>\$ 35,888</u> |

This adjustment occurred because the asset appraisal company assigned a salvage value to the building and also had omitted some assets.

NOTE 11 – SUBSEQUENT EVENT

On June 28, 2005 the Board of Education adopted the fiscal year 2005/06 budgets that included the general fund budget with a current year deficit of \$174,010, and an estimated fund balance deficit of \$235,536. State statutes prohibit adoption of a deficit fund balance budget. Without major reductions in expenditures, there is serious doubt as to whether the district will be able to meet its financial obligations in the near future.

The Board has not made any formal amendments to the budget adopted June 28, 2005, as of the opinion letter date.

NOTE 12 – SHORT TERM DEBT

On April 5, 2005 the district borrowed \$500,000 pledging future State Aid as collateral. The note is due March 22, 2006 along with interest at a rate of 3.87% per annum. This note is recorded as a short term obligation on the balance sheet of the general fund.

NOTE 13 – GOING CONCERN

The General Fund experienced a loss of \$218,787 during the year ended June 30, 2005 leaving a fund balance deficit of \$51,957. The School District has cut staffing costs by eliminating an administrative position for the 2005/06 school year. In addition, other staffing reductions have been implemented. With these implemented changes, the District still has a budgeted deficit of \$174,010 for the 2005/06 school year which will leave a budgeted fund balance deficit of \$225,967. The long term solution is for the District to bring its expenditures in line with revenues, which at this date, the district has been unable to do.

On March 22, 2006 the District has a \$500,000 State Aid Note due. If the district is unable to obtain another note or delay repayment of the existing note it is questionable whether the District will be able to timely meet its obligations by the summer of 2006. If the District is able to increase revenues and/or reduce expenditures during the 2005/06 school year, the time period by which it is unable to timely meet its obligations would be extended.

REQUIRED SUPPLEMENTARY INFORMATION

VANDERBILT AREA SCHOOL
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES, OTHER SOURCES (USES)
AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2005

| | ORIGINAL BUDGET | FINAL BUDGET | ACTUAL | VARIANCE WITH FINAL BUDGET |
|--|--------------------|-----------------|-------------|----------------------------------|
| REVENUES | | | | |
| Local Sources | \$ 914,500 | \$ 956,343 | \$ 943,129 | \$ (13,214) |
| State Sources | 643,046 | 773,116 | 736,558 | (36,558) |
| Federal Sources | 275,000 | 320,812 | 301,722 | (19,090) |
| TOTAL REVENUES | 1,832,546 | 2,050,271 | 1,981,409 | (68,862) |
| EXPENDITURES | | | | |
| Instruction: | | | | |
| Basic programs | 937,600 | 865,130 | 814,365 | 50,765 |
| Added Needs | 406,425 | 362,476 | 358,905 | 3,571 |
| Capital Outlay | 1,300 | 31,300 | 31,300 | - |
| Support Services: | - | - | - | - |
| Student Services | 258,041 | 225,557 | 226,792 | (1,235) |
| General Administration | 241,995 | 227,697 | 217,481 | 10,216 |
| Office of Principal | 149,865 | 151,338 | 151,749 | (411) |
| Business Services | - | 10,207 | 10,207 | - |
| Plant Operation and Maintenance | 200,324 | 227,831 | 222,252 | 5,579 |
| Transportation | 108,100 | 72,581 | 72,518 | 63 |
| Capital Outlay | 3,931 | 3,931 | 3,931 | - |
| Debt Principal | - | - | 56,000 | (56,000) |
| Interest | 9,000 | 8,138 | 6,857 | 1,281 |
| TOTAL EXPENDITURES | 2,316,581 | 2,186,186 | 2,172,357 | 13,829 |
| REVENUES OVER (UNDER) EXPENDITURES | (484,035) | (135,915) | (190,948) | (55,033) |
| OTHER FINANCING SOURCES (USES) | | | | |
| Transfers (Out) | (29,725) | (28,441) | (27,839) | 602 |
| TOTAL OTHER FINANCING SOURCES (USES) | (29,725) | (28,441) | (27,839) | 602 |
| REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES | (513,760) | (164,356) | (218,787) | (54,431) |
| FUND BALANCES, BEGINNING OF YEAR | 295,854 | 166,830 | 166,830 | - |
| FUND BALANCES, END OF YEAR | \$ (217,906) | \$ 2,474 | \$ (51,957) | \$ (54,431) |

See Notes to Financial Statements

VANDERBILT AREA SCHOOL
GENERAL FUND
SCHEDULE OF REVENUES AND OTHER SOURCES
BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2005

| | BUDGETED AMOUNT | | ACTUAL | VARIANCE WITH FINAL BUDGET |
|---|-----------------|--------------|--------------|----------------------------------|
| | ORIGINAL | FINAL | | OVER (UNDER) |
| LOCAL SOURCES | | | | |
| Taxes and Penalties | \$ 840,000 | \$ 840,000 | \$ 838,900 | \$ (1,100) |
| Interest Income | 3,000 | 2,050 | 2,288 | 238 |
| Miscellaneous Income | 7,500 | 50,293 | 49,619 | (674) |
| Incoming Transfers ISD | 64,000 | 64,000 | 52,322 | (11,678) |
| TOTAL LOCAL SOURCES | 914,500 | 956,343 | 943,129 | (13,214) |
| STATE SOURCES | | | | |
| Categorical State Aid | 643,046 | 768,207 | 735,589 | (32,618) |
| Incoming Transfers ISD & Other | - | 4,909 | 969 | (3,940) |
| TOTAL STATE SOURCES | 643,046 | 773,116 | 736,558 | (36,558) |
| FEDERAL SOURCES | | | | |
| Title I | 132,000 | 137,540 | 123,205 | (14,335) |
| Title II A | 25,000 | 37,556 | 29,643 | (7,913) |
| Title II D | 3,500 | 3,789 | 6,162 | 2,373 |
| Title V | 4,500 | 2,759 | 2,759 | - |
| Homeland Security Grant | - | 1,947 | 1,948 | 1 |
| Freedom to Learn | - | 29,000 | 30,601 | 1,601 |
| Comprehensive School Reform | 110,000 | 105,328 | 104,366 | (962) |
| Incoming Transfers ISD & Other | - | 2,893 | 3,038 | 145 |
| TOTAL FEDERAL SOURCES | 275,000 | 320,812 | 301,722 | (19,090) |
| TOTAL REVENUE & OTHER FINANCING SOURCES | \$ 1,832,546 | \$ 2,050,271 | \$ 1,981,409 | \$ (68,862) |

See Notes to Financial Statements

VANDERBILT AREA SCHOOL
GENERAL FUND
SCHEDULE OF EXPENDITURES, AND OTHER USES
BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2005

| | BUDGETED AMOUNT | | ACTUAL | VARIANCE WITH FINAL BUDGET |
|------------------------------|-----------------|------------|------------|----------------------------------|
| | ORIGINAL | FINAL | | OVER (UNDER) |
| EXPENDITURES | | | | |
| INSTRUCTION | | | | |
| Basic Programs: | | | | |
| Elementary | \$ 402,700 | \$ 337,811 | \$ 330,269 | \$ 7,542 |
| Middle School | 295,950 | 308,651 | 272,500 | 36,151 |
| High School | 238,950 | 218,668 | 211,596 | 7,072 |
| Total Basic Programs | 937,600 | 865,130 | 814,365 | 50,765 |
| Added Needs: | | | | |
| Special Education | 177,725 | 161,869 | 154,252 | 7,617 |
| Title I | 132,000 | 111,622 | 123,205 | (11,583) |
| At Risk | 65,000 | 45,888 | 44,838 | 1,050 |
| Title II A | 25,000 | 37,556 | 29,643 | 7,913 |
| Other | 6,700 | 5,541 | 6,967 | (1,426) |
| Capital Outlay - Instruction | 1,300 | 31,300 | 31,300 | - |
| Total Added Needs | 407,725 | 393,776 | 390,205 | 3,571 |
| TOTAL INSTRUCTION | 1,345,325 | 1,258,906 | 1,204,570 | 54,336 |
| SUPPORTING SERVICES | | | | |
| Student Services: | | | | |
| Comprehensive School Reform | 110,000 | 102,886 | 104,366 | (1,480) |
| Other Services | 6,446 | 8,709 | 6,701 | 2,008 |
| Library | 79,100 | 47,060 | 45,745 | 1,315 |
| Computers & Technology | 62,495 | 66,902 | 69,980 | (3,078) |
| Total Student Services | 258,041 | 225,557 | 226,792 | (1,235) |
| General Administration: | | | | |
| Board of Education | 55,090 | 27,497 | 28,940 | (1,443) |
| Executive Administration | 186,905 | 200,200 | 188,541 | 11,659 |
| Total General Administration | 241,995 | 227,697 | 217,481 | 10,216 |

(Continued)

See Notes to Financial Statements

VANDERBILT AREA SCHOOL
GENERAL FUND
SCHEDULE OF EXPENDITURES, AND OTHER USES
BUDGET AND ACTUAL (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2005

| | BUDGETED AMOUNT | | ACTUAL | VARIANCE WITH FINAL BUDGET |
|--------------------------------------|-----------------|--------------|--------------|----------------------------------|
| | ORIGINAL | FINAL | | OVER (UNDER) |
| SUPPORTING SERVICES (CONTINUED) | | | | |
| School Administration | | | | |
| Office of Principal | \$ 149,865 | \$ 151,338 | \$ 151,749 | \$ (411) |
| Business Services | - | 10,207 | 10,207 | - |
| Total School Administration | 149,865 | 161,545 | 161,956 | (411) |
| Plant Operation and Maintenance | 200,324 | 227,831 | 222,252 | 5,579 |
| Pupil Transportation | 108,100 | 72,581 | 72,518 | 63 |
| Capital Outlay - Supporting Services | 3,931 | 3,931 | 3,931 | - |
| Debt Principal | - | - | 56,000 | (56,000) |
| Interest | 9,000 | 8,138 | 6,857 | 1,281 |
| TOTAL SUPPORTING SERVICES | 971,256 | 927,280 | 967,787 | (40,507) |
| OUTGOING TRANSFERS | | | | |
| Athletics Fund | 29,725 | 28,441 | 27,839 | 602 |
| TOTAL OUTGOING TRANSFERS | 29,725 | 28,441 | 27,839 | 602 |
| TOTAL EXPENDITURES AND TRANSFERS OUT | \$ 2,346,306 | \$ 2,214,627 | \$ 2,200,196 | \$ 14,431 |

See Notes to Financial Statements

OTHER SUPPLEMENTARY INFORMATION

VANDERBILT AREA SCHOOL
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2005

| | SPECIAL REVENUE FUNDS | | | | |
|-------------------------------------|-----------------------|----------------------|---------------------|----------------------------|------------------|
| | ATHLETIC FUND | FOOD SERVICE FUND | DURANT DEBT FUND | CAPITAL PROJECT FUND | TOTAL |
| ASSETS | | | | | |
| Cash | \$ 2,066 | \$ 972 | \$ - | \$ 19,037 | \$ 22,075 |
| Inventory | - | 1,791 | - | - | 1,791 |
| Due From Other Funds | - | 6,028 | - | 2,439 | 8,467 |
| TOTAL ASSETS | <u>\$ 2,066</u> | <u>\$ 8,791</u> | <u>\$ -</u> | <u>\$ 21,476</u> | <u>\$ 32,333</u> |
| LIABILITIES AND FUND EQUITY | | | | | |
| LIABILITIES | | | | | |
| Due to Other Funds | \$ 350 | \$ - | \$ - | \$ - | \$ 350 |
| TOTAL LIABILITIES | <u>350</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>350</u> |
| FUND BALANCE | | | | | |
| Reserved | | | - | 21,476 | 21,476 |
| Unreserved | 1,716 | 8,791 | - | - | 10,507 |
| TOTAL FUND BALANCES | <u>1,716</u> | <u>8,791</u> | <u>-</u> | <u>21,476</u> | <u>31,983</u> |
| TOTAL LIABILITIES AND FUND BALANCES | <u>\$ 2,066</u> | <u>\$ 8,791</u> | <u>\$ -</u> | <u>\$ 21,476</u> | <u>\$ 32,333</u> |

See Notes to Financial Statements

VANDERBILT AREA SCHOOL
 COMBINING STATEMENT OF REVENUES, EXPENDITURES
 AND CHANGES IN FUND BALANCES
 NONMAJOR GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED JUNE 30, 2005

| | SPECIAL REVENUE FUNDS | | | | |
|---|-----------------------|-------------------|------------------|---------------------------|-----------|
| | ATHLETIC FUND | FOOD SERVICE FUND | DURANT DEBT FUND | 1998 CAPITAL PROJECT FUND | TOTAL |
| REVENUES | | | | | |
| Local Sources | \$ 12,694 | \$ 17,449 | \$ - | \$ - | \$ 30,143 |
| Interest | 2 | 9 | - | 140 | 151 |
| State Sources | - | 8,433 | - | - | 8,433 |
| Federal Sources | - | 41,587 | - | - | 41,587 |
| TOTAL REVENUES | 12,696 | 67,478 | - | 140 | 80,314 |
| EXPENDITURES | | | | | |
| Current | | | | | |
| Athletics | 41,695 | - | - | - | 41,695 |
| Food Service | - | 74,625 | - | - | 74,625 |
| Capital Outlay | - | - | - | 4,517 | 4,517 |
| TOTAL EXPENDITURES | 41,695 | 74,625 | - | 4,517 | 120,837 |
| REVENUES OVER (UNDER) EXPENDITURES | (28,999) | (7,147) | - | (4,377) | (40,523) |
| OTHER FINANCING SOURCES (USES) | | | | | |
| Transfers In | 27,839 | - | - | - | 27,839 |
| TOTAL OTHER FINANCING SOURCES (USES) | 27,839 | - | - | - | 27,839 |
| REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES | (1,160) | (7,147) | - | (4,377) | (12,684) |
| FUND BALANCES, BEGINNING OF YEAR | 2,876 | 15,938 | - | 25,853 | 44,667 |
| FUND BALANCES, END OF YEAR | \$ 1,716 | \$ 8,791 | \$ - | \$ 21,476 | \$ 31,983 |

See Notes to Financial Statements

VANDERBILT AREA SCHOOL
OTHER SUPPLEMENTARY INFORMATION
STATEMENT OF BONDED INDEBTEDNESS
YEAR ENDED JUNE 30, 2005

| | 1997 Debt Principal | Durant Debt Principal | Total |
|------------------------|-------------------------|--------------------------|---------------------|
| <u>Fiscal June 30</u> | | | |
| 2006 | \$ 110,000 | \$ 1,910 | \$ 111,910 |
| 2007 | 125,000 | 2,001 | 127,001 |
| 2008 | 135,000 | 2,096 | 137,096 |
| 2009 | 145,000 | 2,196 | 147,196 |
| 2010 | 155,000 | 2,301 | 157,301 |
| 2011 | 160,000 | 2,410 | 162,410 |
| 2012 | 170,000 | 2,525 | 172,525 |
| 2013 | 180,000 | 9,772 | 189,772 |
| 2014 | 190,000 | | 190,000 |
| 2015 | 195,000 | | 195,000 |
| 2016 | 195,000 | | 195,000 |
| 2017 | 200,000 | | 200,000 |
| 2018 | 200,000 | | 200,000 |
| 2019 | 200,000 | | 200,000 |
| 2020 | 200,000 | | 200,000 |
| 2021 | 200,000 | | 200,000 |
| 2022 | 200,000 | | 200,000 |
| | <u>\$ 2,960,000</u> | <u>\$ 25,211</u> | <u>\$ 2,985,211</u> |
| Principal payments due | May 1 | May 15 | |
| Interest payments due | May 1 and November 1 | | |
| Interest rate | 4.75%-5.125% | 4.761353% | |
| Original issue | <u>\$ 3,400,000</u> | <u>\$ 25,211</u> | |



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REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

October 15, 2005

Board of Education
Vanderbilt Area School
Vanderbilt, Michigan 49795

I have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Vanderbilt Area School as of and for the year ended June 30, 2005, which collectively comprise the Vanderbilt Area School's basic financial statements and have issued my report thereon dated October 15, 2005. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered Vanderbilt Area School's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. I noted no matters involving the internal control over financial reporting and its operation that I consider to be material weaknesses. However, I noted other matters involving the internal control over financial reporting that I have reported to management of Vanderbilt Area School in a separate letter dated October 15, 2005.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Vanderbilt Area School's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, I noted certain immaterial instances of noncompliance that I have reported to management of Vanderbilt Area School in a separate letter dated October 15, 2005.

Page 2
October 15, 2005
Board of Education
Vanderbilt Area Schools

This report is intended solely for the information and use of management, federal awarding agencies, pass-through entities, the Michigan Department of Education, and Michigan Department of Treasury and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in dark ink, appearing to read "T. Zick, CPA, P.C.", written in a cursive style.

THOMAS R. ZICK CPA, P.C.
CERTIFIED PUBLIC ACCOUNTANT



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FINANCIAL AUDIT COMMENTS

October 15, 2005

Board of Education
Vanderbilt Area School
Vanderbilt, Michigan 49795

I have audited the basic financial statements of Vanderbilt Area School, Vanderbilt, Michigan, for the year ended June 30, 2005, and have issued my report thereon dated October 15, 2005. My report is unqualified with a going concern modification.

I have conducted my audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement.

The management of Vanderbilt Area School, Vanderbilt, Michigan is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of general purpose financial statements in accordance with generally accepted accounting principles. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

In planning and performing my audit of the general purpose financial statements of Vanderbilt Area School, Vanderbilt, Michigan, for the year ended June 30, 2005, I obtained an understanding of the internal control structure. With respect to the internal control structure, I obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and I assessed control risk in order to determine my auditing procedures for the purpose of expressing my opinion on the basic financial statements and not to provide an opinion on the internal control structure. Accordingly, I do not express such an opinion.

I noted certain immaterial matters involving the internal control structure and other matters that I detail for your attention below.

BUDGETS – The School District is required under Public Act 621 of 1978 to adopt (pass) a budget (General Appropriations Act) for the General Fund and Individual Special Revenue Funds. The District complied in all areas except the following expenditure areas that exceeded budgeted amounts:

| <u>Fund/Function</u> | <u>Total Budget</u> | <u>Actual Expenditures</u> | <u>Budget Variance</u> |
|-----------------------------|-------------------------|--------------------------------|----------------------------|
| General Fund | | | |
| Title I | \$ 111,622 | \$ 123,205 | \$ (11,583) |
| Other | \$ 5,541 | \$ 6,967 | \$ (1,426) |
| Comprehensive School Reform | \$ 102,886 | \$ 104,366 | \$ (1,480) |
| Computers & Technology | \$ 66,902 | \$ 69,980 | \$ (3,078) |
| Board of Education | \$ 27,497 | \$ 28,940 | \$ (1,443) |
| Office of Principal | \$ 151,338 | \$ 151,749 | \$ (411) |
| Debt Principal | \$ -0- | \$ 56,000 | \$ (56,000) |
| Special Revenue: | | | |
| Athletic | \$ 41,600 | \$ 41,695 | \$ (95) |
| Food Service | \$ 71,745 | \$ 74,625 | \$ (2,880) |

2004/05 BUDGET / FUND BALANCE PROJECTION – The State Aid Statutes and Public Act 621, (The Accounting and Budgeting Act) prohibit a district from budgeting for a fund balance deficit. Your 2004/05 budget as adopted on June 24, 2004 violated these statutes. In addition, the budget adopted for the 2005/06 year again violated these statutes.

Your General Fund fund deficit for the fiscal year ended June 30, 2005 was \$51,957. This violates state statute which prohibits ending the fiscal year with a deficit in any fund.

The board should immediately evaluate the adopted budget and amend it where possible. In addition a deficit elimination plan must be filed with the Michigan Department of Education. A letter from MDE set a deadline of December 1, 2005 for filing that plan.

DEFERRED REVENUE – There are still several grants which have deferred revenue recorded because the funds have been received but not spent. The largest deferred amount is Section 31(a) at risk funds with a balance of \$38,211. In addition, there is federal title I revenue deferred because of final expenditures report (DS-4044) filing errors.

GRANT ACCOUNTING / REPORTING

There presently is no centralized oversight for grant financial management. Copies of grant agreements, grant award notifications and grant expenditure reports could not be readily located.

I suggest that a file be set up in the bookkeeping office for each grant. Included in that file should be a copy of all of the documents mentioned in the preceding paragraph. In addition, requests for cash draws should also be included in the file. At year end, a review of the grant section auditors report (form R7120) should be performed and each grant should be reconciled to that report.

CASH RECEIPTS

The receipting system which is part of your accounting package should be used. By using this system you will have more detail in your ledger for each receipt and be able to trace an entry if necessary. It will also help to eliminate the double entry of some of the receipts which did occur during the 2004/05 year. I can assist you with this procedure.

During the year a check was received, by one of your grant administrators, which had a 90 day time limit on cashing the check. The check was not forwarded to the bookkeeping staff until after the 90 day period. The check was dated 3/9/05 and was deposited initially after the 90 day period and was rejected by the bank. As of 10/15/05 the check still had not been redeposited. All checks must be forwarded directly to the bookkeeping staff immediately upon receipt to assure these problems do not reoccur.

The student activity funds should have a formal receipt written each time receipts are given to the office for deposit to the bank. In addition, to strengthen internal control in this area, I suggest that the principal's office be responsible for collecting these receipts and that prior to writing the receipt the funds should be counted by the office staff along with the individual submitting the receipts.

MONTHLY FINANCIAL REPORTS

In order to closely monitor the budget deficit situation it is imperative that complete monthly financial statements are available, on a timely basis. I would recommend that the budget responsibility reports, which are available on your system be used for that purpose. The board of education, superintendent and Michigan Department of Education all should receive copies of these reports monthly.

SEGREGATION OF DUTIES – There is not adequate segregation of duties in the accounting area. One individual posts all journals, the general ledger and also prepares checks and reconciles the bank accounts. The same individual also initiates and posts all journal entries. The lack of segregation of duties is inherent because of staff limitations. The board must recognize that all internal controls must be evaluated for cost effectiveness. The controls that could be added would have to be compared with the costs required to obtain those controls. One possible feature that could strengthen controls in the cash/bank account area would be to have the superintendent review the bank reconciliations on a monthly basis and agree them to the general ledger.

MATERIAL WEAKNESS – A material weakness is a reportable condition in which the design or operation of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

My consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, I believe none of the matters described above are material weaknesses.

This report is intended solely for the information and use of the Vanderbilt Area School's management, Board of Education, the Michigan Departments of Treasury and Education, and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.



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